# SIR Corp.

Consolidated Financial Statements
**August 28, 2011 and August 29, 2010**

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November 16, 2011

## Independent Auditor's Report

**To the Shareholders of**
**SIR Corp.**

We have audited the accompanying consolidated financial statements of SIR Corp. and its subsidiaries, which comprise the consolidated balance sheets as at August 28, 2011 and August 29, 2010 and the consolidated statements of operations and comprehensive income (loss), deficit and cash flows for the 52-week periods then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SIR Corp. and its subsidiaries as at August 28, 2011 and August 29, 2010 and the results of their operations and their cash flows for the 52-week periods then ended in accordance with Canadian generally accepted accounting principles.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants, Licensed Public Accountants**

# SIR Corp.
Consolidated Balance Sheets

(in thousands of dollars)

| | August 28, 2011 $ | August 29, 2010 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 5,209 | 9,586 |
| Accounts receivable (note 17) | 3,099 | 2,839 |
| Inventories | 2,568 | 2,503 |
| Prepaid expenses, deposits and other assets | 541 | 611 |
| Current portion of loans and advances (note 6) | 400 | 375 |
| Current assets of discontinued operation (note 5) | 203 | 101 |
| | 12,020 | 16,015 |
| **Loans and advances** (note 6) | 1,065 | 1,065 |
| **Property and equipment** (notes 7 and 13) | 41,166 | 42,276 |
| **Goodwill** | 5,410 | 5,410 |
| **Intangible and other assets** (note 8) | 848 | 415 |
| **Property and equipment of discontinued operation** (note 5) | - | 2,385 |
| | 60,509 | 67,566 |

# SIR Corp.

Consolidated Balance Sheets …*continued*

(in thousands of dollars)

| | August 28, 2011 $ | August 29, 2010 $ |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (notes 13 and 17) | 22,209 | 21,429 |
| Construction accounts payable and accrued liabilities | 453 | 829 |
| Current portion of long-term debt (note 9) | 2,078 | 2,074 |
| Current portion of other long-term liabilities (note 11) | 1,042 | 1,387 |
| Amounts due to SIR Royalty Income Fund - net (note 10(c)) | 1,896 | 1,744 |
| Current liabilities of discontinued operation (note 5) | 121 | 1,244 |
| | 27,799 | 28,707 |
| **Long-term debt** (note 9) | 20,579 | 22,133 |
| **Loan payable to SIR Royalty Income Fund** (note 10(a)) | 35,600 | 35,575 |
| **Non-controlling interest in SIR Royalty Limited Partnership** (note 10(b)) | 11,167 | 11,167 |
| **Other long-term liabilities** (note 11) | 8,742 | 8,882 |
| **Future income taxes** (note 16) | 103 | 108 |
| | 103,990 | 106,572 |
| **Shareholders' Deficiency** | | |
| **Capital stock** (note 12) | 11,571 | 11,571 |
| **Accumulated other comprehensive loss** (note 5) | - | (202) |
| **Deficit** | (55,052) | (50,375) |
| | (43,481) | (39,006) |
| | 60,509 | 67,566 |

**Contingencies and commitments** (note 14)

The accompanying notes are an integral part of these consolidated financial statements.

**Approved by the Board of Directors**

| (signed) Grey Sisson | (signed) Peter Fowler |
|---|---|
| Director | Director |

# SIR Corp.
## Consolidated Statements of Operations and Comprehensive Income (Loss)

(in thousands of dollars)

| | 52-week period ended August 28, 2011 $ | 52-week period ended August 29, 2010 $ |
|---|---|---|
| **Corporate restaurant operations** (note 1) | | |
| **Food and beverage revenue** (note 18) | 206,680 | 198,318 |
| **Costs of corporate restaurant operations** | | |
| Food and beverage | 62,290 | 59,192 |
| Labour | 70,287 | 64,758 |
| Direct costs of restaurant operations (note 13) | 48,455 | 47,668 |
| Amortization of restaurant assets | 7,640 | 7,653 |
| | 188,672 | 179,271 |
| **Earnings from corporate restaurant operations** | 18,008 | 19,047 |
| Corporate costs (note 13) | (10,513) | (9,763) |
| Other amortization | (269) | (277) |
| | (10,782) | (10,040) |
| **Earnings before the following items** | 7,226 | 9,007 |
| Interest expense - net (note 9) | (2,286) | (2,241) |
| Interest on loan payable to SIR Royalty Income Fund (note 10(a)) | (2,992) | (2,992) |
| Non-controlling interest in SIR Royalty Limited Partnership (note 10(b)) | (4,886) | (4,618) |
| Provision for impairment of long-lived assets (note 7) | (935) | - |
| Recovery of impairment of loans and advances (note 6) | 400 | 700 |
| Other income (expense) - net (note 17) | (6) | 367 |
| **Earnings (loss) before income taxes** | (3,479) | 223 |
| Provision for (recovery of) income taxes (note 16) | (5) | 4 |
| **Net earnings (loss) from continuing operations for the period** | (3,474) | 219 |
| Loss from discontinued operation for the period (note 5) | (1,203) | (208) |
| **Net earnings (loss) for the period** | (4,677) | 11 |
| **Other comprehensive income** | 202 | - |
| **Comprehensive income (loss) for the period** | (4,475) | 11 |

The accompanying notes are an integral part of these consolidated financial statements.

# SIR Corp.

## Consolidated Statements of Deficit

(in thousands of dollars)

| | 52-week period ended August 28, 2011 $ | 52-week period ended August 29, 2010 $ |
|---|---|---|
| **Deficit - Beginning of period** | (50,375) | (39,391) |
| Net earnings (loss) for the period | (4,677) | 11 |
| Change arising from related party transaction (notes 6 and 12) | - | (265) |
| Excess of purchase price of capital stock for cancellation (note 12) | - | (10,730) |
| **Deficit - End of period** | (55,052) | (50,375) |

The accompanying notes are an integral part of these consolidated financial statements.

# SIR Corp.

## Consolidated Statements of Cash Flows

(in thousands of dollars)

| | 52-week period ended August 28, 2011 $ | 52-week period ended August 29, 2010 $ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net earnings (loss) from continuing operations for the period | (3,474) | 219 |
| Items not affecting cash | | |
| Amortization | 7,909 | 7,930 |
| Future income taxes (note 16) | (5) | 11 |
| Recovery of impairment of loans and advances (note 6) | (400) | (700) |
| Provision for impairment of long-lived assets (note 7) | 935 | - |
| Non-cash interest expense - net | 211 | 456 |
| Amortization of leasehold inducements | (514) | (553) |
| Other (note 15) | 355 | 261 |
| Leasehold and other inducements received | 239 | 221 |
| Net change in working capital items (note 15) | 32 | 2,181 |
| Cash provided by continuing operations | 5,288 | 10,026 |
| Cash used in discontinued operation (note 5) | (463) | (37) |
| | 4,825 | 9,989 |
| **Investing activities** | | |
| Purchase of property and equipment and other assets - net | (8,308) | (2,439) |
| Purchase of loan receivable | - | (265) |
| Repayment of loans and advances | 558 | 538 |
| Proceeds from sale of discontinued operation (note 5) | 1,695 | - |
| Cash used in continuing investing activities | (6,055) | (2,166) |
| Cash used in discontinued operation (note 5) | (6) | (41) |
| | (6,061) | (2,207) |
| **Financing activities** | | |
| Proceeds from issuance of long-term debt | - | 26,027 |
| Principal repayment of long-term debt | (1,903) | (14,382) |
| Financing fees | (173) | (1,056) |
| Repurchase of capital stock (note 12) | - | (16,764) |
| Cash used in continuing financing activities | (2,076) | (6,175) |
| Cash used in discontinued operation (note 5) | (1,065) | (152) |
| | (3,141) | (6,327) |
| **Increase (decrease) in cash and cash equivalents during the period** | (4,377) | 1,455 |
| **Cash and cash equivalents - Beginning of period** | 9,586 | 8,131 |
| **Cash and cash equivalents - End of period** | 5,209 | 9,586 |

**Supplemental information** (note 15)

The accompanying notes are an integral part of these consolidated financial statements.

## 1 Nature of operations and fiscal year

### Nature of operations

SIR Corp. (the Company) is a private company amalgamated under the Business Corporations Act of Ontario. As at August 28, 2011, the Company operated a total of 47 (August 29, 2010 - 45) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia) (the SIR Restaurants). The Concept restaurants are Jack Astor's Bar and Grill® (Jack Astor's®), Canyon Creek Chop House® (Canyon Creek®) and Alice Fazooli's®, and the Signature restaurants are reds®, Far Niente®/FOUR™/Petit Four™ and the Loose Moose Tap & Grill®. The Company also owns Jack Astor's (Cary & Las Colinas) Limited, which operated one Jack Astor's restaurant in the United States. On August 16, 2011, the Company sold substantially all the assets of this restaurant operation (note 5). On November 14, 2011, the Company opened a new Jack Astor's restaurant.

On October 1, 2004, SIR Royalty Income Fund (the Fund) filed a final prospectus for a public offering of units of the Fund. The net proceeds of the offering of $51,167,000 were used by the Fund to acquire certain bank debt of the Company (the SIR Loan) (note 10) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP units of SIR Royalty Limited Partnership (the Partnership). On October 12, 2004, the Partnership acquired from the Company the Canadian trademarks used in connection with the operation of the majority of the Company's restaurants in Canada (note 10).

### Fiscal year

The Company's fiscal year is made up of 52- or 53-week periods ending on the last Sunday in August. The fiscal quarters for the Company consist of accounting periods of 12, 12, 12 and 16 or 17 weeks, respectively. The fiscal years for 2011 and 2010 consisted of 52 weeks.

## 2 Summary of significant accounting policies

### Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly owned, majority owned and other subsidiaries where the Company is exposed to the majority of the expected losses or returns. All intercompany accounts and transactions have been eliminated. The Company owns 100% of its subsidiaries, with the exception of the Partnership (note 10(b)).

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and disclosures applicable to private companies. When public company disclosure provides additional meaningful information, management has incorporated such disclosure in these consolidated financial statements.

**Seasonality**

The full-service restaurant sector of the Canadian food-service industry, in which the Company operates, experiences seasonal fluctuations in revenues. Favourable summer weather generally results in increased revenues during the Company's fourth quarter (ending the last Sunday in August) when patios can be open. Additionally, certain holidays and observances also affect dining patterns both favourably and unfavourably.

A summary of the significant accounting policies followed in the preparation of these consolidated financial statements is as follows.

**Use of estimates**

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect income and expenses during the reporting periods, in addition to the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the consolidated financial statements. Actual results could differ materially from those estimates in the near term.

**Revenue recognition**

Revenue from restaurant operations is recognized when services are rendered.

The Company recognizes gift certificate revenue as gift certificates are redeemed. Gift certificates that are not redeemed within two years of the issuance date are recognized as other income in the consolidated statements of operations based on historical redemption rates.

**Cash and cash equivalents**

Cash and cash equivalents are defined as cash and short-term investments with original maturities of three months or less.

**Inventories**

Inventories, which consist of food, beverage and merchandise, are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

**Property and equipment**

Property and equipment are recorded at cost, less accumulated amortization. Amortization is calculated as follows:

| | |
|---|---|
| Corporate furniture, fixtures and equipment | 5 years straight-line |
| Computer equipment and software | 5 years straight-line |
| Restaurant furniture, fixtures and equipment | 10 years straight-line |
| Leasehold improvements | over the lease term on a straight-line basis to a maximum of 10 years |

**Intangible and other assets**

Intangible lease assets arising on business combinations comprise the present value of the amount by which market lease rates exceeded the contractual lease rates on the date of acquisition and are being amortized on a straight-line basis over the remaining life of the respective leases (note 8).

Intangible computer software is recorded at cost, less accumulated amortization, and is amortized over three to five years on a straight-line basis.

**Impairment of long-lived assets**

An impairment charge is recognized for long-lived assets, including intangible assets with finite lives, when an event or change in circumstances causes an asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the asset and its carrying value.

**Leases of equipment**

Leases of equipment on terms that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as capital leases. All other leases of equipment are accounted for as operating leases. Operating lease payments are expensed on a straight-line basis over the term of the lease.

**Goodwill**

Goodwill represents the excess of the cost of investments in subsidiaries and businesses acquired over the fair value of the net assets acquired. Goodwill is not amortized. The Company performs an impairment review of goodwill at least annually, or whenever events or changes in circumstances indicate that the carrying value may be impaired. The need for any writedown of goodwill due to an impairment in its value is based on the assessment of the fair value of the individual business units and the related goodwill.

**Loans and advances**

Loans and advances are recorded at cost and are written down to their estimated realizable amount when there is evidence of an impairment. Loans and advances are reviewed for impairment on an individual basis and are reduced to the estimated recoverable amount measured by expected future cash flows. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the loans and advances are measured at the fair value of the underlying security, net of expected costs of realization. The accrual of interest is suspended if collection becomes doubtful.

**Supplier rebates**

Supplier rebates are upfront payments received under supplier agreements, which are recognized as a reduction of the cost of purchases over the term of the supplier agreements.

**Leasehold inducements**

Leasehold inducements represent payments received from landlords at the time of construction and are deferred and amortized on a straight-line basis over the term of the lease.

**Financial instruments**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, loans and advances, accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, long-term debt, amounts due to SIR Royalty Income Fund and loan payable to SIR Royalty Income Fund. The Company accounts for its cash and cash equivalents at fair value and all other financial instruments are accounted for using amortized cost.

**Future income taxes**

Future income taxes are provided on the asset and liability methods whereby future income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

**Stock-based compensation and other stock-based payments**

The Company adopted the provisions of The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, for awards to non-employees and employee awards. Compensation expense is recognized based on the fair value method of accounting for stock options granted under the Company's stock option plan. Any consideration paid by employees or directors on exercising stock options is credited to capital stock.

**Foreign currency translation**

Until August 28, 2004, the operations of the Company's foreign subsidiary were considered to be self-sustaining and were, therefore, translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated using period-end exchange rates while revenues and expenses are translated at the average rates during the period. Exchange gains and losses on translation are recorded in accumulated other comprehensive loss.

Effective August 29, 2004, the operations of the foreign subsidiary are considered integrated with those of the Company. Monetary items are now translated into Canadian dollars at the exchange rate in effect at the dates of the consolidated balance sheets, non-monetary items are translated at historical exchange rates and results of operations are translated at the average exchange rate for the period. Exchange gains and losses on the translation of the integrated foreign subsidiary are included in net earnings (loss) for the period.

The exchange gains and losses accumulated in the currency translation adjustment account will be realized when there is a reduction in the Company's net investment in the operations that gave rise to the exchange gains and losses. During the period, the Company disposed of its US restaurant operation and, accordingly, realized the exchange loss of $202,000 (August 29, 2010 - $nil) (note 5).

**Asset retirement obligations**

CICA Handbook Section 3110, Asset Retirement Obligations, establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement cost. The standard applies to legal obligations associated with the retirement of tangible long-lived assets. The standard applies to obligations for both lessors and lessees in connection with leased assets. The Company has adopted the provisions of this standard with respect to estimated lease-end remediation costs.

**Long-term debt and loan payable to SIR Royalty Income Fund**

Financing fees represent transaction costs paid to obtain financing and are netted against the related debt. The deferred financing fees are amortized over the term of the related debt using the effective interest rate method.

## 3 Recently issued accounting pronouncements

**Accounting standards for private enterprises**

The Canadian Accounting Standards Board has finalized a new set of standards for private enterprises; the Company will adopt Accounting standards for private enterprises (ASPE) effective for its fiscal 2012 year. Management is evaluating the new standards and has determined that the following standards will impact the Company's consolidated financial statements:

i) Financial instruments - the Company has elected to change from the effective interest method to the straight-line method to account for amortization of financing fees relating to its long-term debt and the loan payable to SIR Royalty Income Fund;

ii) Business combinations - the Company has elected under ASPE Section 1500, First-time Adoption, to be exempt from the retrospective application of business combinations; and

iii) The Company is evaluating the implications of ASPE Section 1602, Non-controlling Interests, on its non-controlling interest in SIR Royalty Limited Partnership.

The Company continues to evaluate the implications of adopting ASPE on its consolidated financial statements, including quantification of adjustments for the above changes in accounting policies.

## 4 Financial instruments

### Classification

The classifications of the financial instruments, as well as their carrying and fair values, are as follows:

| | | August 28, 2011 $ | | August 29, 2010 $ | |
|---|---|---|---|---|---|
| | **Classification** | **Carrying value** (in thousands of dollars) | **Fair value** | **Carrying value** (in thousands of dollars) | **Fair value** |
| Cash and cash equivalents | Held-for-trading | 5,209 | 5,209 | 9,586 | 9,586 |
| Accounts receivable | Loans and receivables | 3,099 | 3,099 | 2,839 | 2,839 |
| Loans and advances | Loans and receivables | 1,465 | 1,465 | 1,440 | 1,440 |
| Accounts payable and accrued liabilities | Other financial liabilities | 22,209 | 22,209 | 21,429 | 21,429 |
| Construction accounts payable and accrued liabilities | Other financial liabilities | 453 | 453 | 829 | 829 |
| Amounts due to SIR Royalty Income Fund - net | Other financial liabilities | 1,896 | 1,896 | 1,744 | 1,744 |
| Long-term debt | Other financial liabilities | 22,657 | 23,064 | 24,207 | 24,967 |
| Loan payable to SIR Royalty Income Fund | Other financial liabilities | 35,600 | see below | 35,575 | see below |

### Carrying and fair values

Cash and cash equivalents, accounts receivable, loans and advances, accounts payable and accrued liabilities, construction accounts payable and accrued liabilities and amounts due to SIR Royalty Income Fund are short-term financial instruments whose fair values approximate the carrying values, given that they will mature in the short term or, in the case of loans and advances, fair values do not differ significantly from their carrying values. The fair value of long-term debt is determined based on the estimated contractual schedule of payments and, in the case of the capital lease obligations, the rate on the debt instrument is not materially different from current market interest rates. The fair value of the loan payable to SIR Royalty Income Fund could only be determined through the valuation of the debt. As a result, the determination of its fair value is not practicable within the constraints of timeliness and cost.

### Objectives and policy relating to financial risk management

Financial risk management is carried out by the management of the Company and its Board of Directors. The Company’s main financial risk exposure, as well as its risk management policy, is detailed as follows:

**Interest rate risk**

The loan payable to SIR Royalty Income Fund and the capital lease obligations have fixed interest rates. Accordingly, changes in interest rates would not impact the consolidated statements of operations and comprehensive income (loss) or the carrying value of these financial liabilities. However, the fair value of these financial liabilities will vary with changes in interest rates.

The Company currently has $23,043,000 in floating rate debt. The Company incurred $2,088,000 of interest expense on this debt during the 52-week period ended August 28, 2011. An increase or decrease of 1.0% in the three-month Canadian dollar banker's acceptance rate would have resulted in an increase or decrease, respectively, in loss and comprehensive loss of $230,000 for the 52-week period ended August 28, 2011.

The Company's policy is to invest excess cash in short-term investments. It is not the Company's practice to hedge against changes in interest rates.

**Credit risk**

Credit risk is defined as the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in its cash and cash equivalents, accounts receivable and loans and advances. The Company minimizes the credit risk of cash and cash equivalents by depositing funds with reputable financial institutions. The Company's accounts receivable primarily comprise amounts due from major credit card companies; therefore, management believes that the Company's accounts receivable credit risk exposure is limited. The Company monitors the collectibility of its loans and advances, predominantly due from related parties, by reviewing them for impairment on an individual basis and recording the instrument at its net realizable value. The Company has determined that the loans and advances to U.S. S.I.R. L.L.C. are impaired based on estimated future cash flows of U.S. S.I.R. L.L.C. Accordingly, the carrying values of the loans and advances are recorded at their net realizable values, which were determined by discounting the expected future cash flows. Due to the improvement in the estimated future cash flows of U.S. S.I.R. L.L.C., a recovery of impairment of $400,000 (52-week period ended August 29, 2010 - $700,000) was recognized in the consolidated statements of operations. In addition, the Company regularly receives payments on these loans and advances and, accordingly, recognized interest income of $183,000 during the 52-week period ended August 28, 2011 (52-week period ended August 29, 2010 - $151,000).

**Foreign currency exchange risk**

Now that substantially all the assets of the Jack Astor's restaurant operating in the United States have been sold, the Company's exposure to foreign currency exchange rate risk is minimal (note 5).

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Management believes that there are sufficient cash resources retained in the Company from cash generated by operations to fund its working capital requirements and current commitments for estimated construction costs for new restaurants. The Company prepares budgets and forecasts to evaluate its ability to meet future cash obligations.

In accordance with CICA Accounting Guideline 15, Consolidation of Variable Interest Entities, the Company consolidates its investment in the Partnership. Included in cash and cash equivalents is $1,867,000 (August 29, 2010 - $1,937,000) of cash of the Partnership. These funds can only be utilized by the Partnership and are not available to the Company for other general corporate purposes. The funds are maintained in separate bank accounts of the Partnership.

The estimated contractual payments from continuing operations required for the financial liabilities are as follows:

| | 2012 $ | 2013 $ | 2014 $ | 2015 $ | 2016 $ | Thereafter $ |
|---|---|---|---|---|---|---|
| | | | (in thousands of dollars) | | | |
| Accounts payable and accrued liabilities | 22,209 | - | - | - | - | - |
| Construction accounts payable and accrued liabilities | 453 | - | - | - | - | - |
| Long-term debt* | 2,630 | 22,559 | 1,703 | 1,825 | 6,348 | - |
| Amounts due to SIR Royalty Income Fund - net | 1,896 | - | - | - | - | - |
| Loan payable to SIR Royalty Income Fund | - | - | - | - | - | 40,000 |
| | 27,188 | 22,559 | 1,703 | 1,825 | 6,348 | 40,000 |

*The long-term debt repayments include the estimated repayments on the Development Loan.

## 5 Discontinued operation

On August 16, 2011, the Company sold substantially all of the assets of its restaurant operation in the United States, Jack Astor’s Cary, LLC, a subsidiary of Jack Astor’s (Cary & Las Colinas) Limited for cash consideration of $1,695,000 (US$1,726,000), net of transaction costs of $95,000 (US$97,000). The Company recognized a loss on disposal of these assets of $565,000 and part of the net proceeds from the sale has been used to repay the associated US bank debt of $906,000 (US$923,000) as at August 16, 2011.

The foreign exchange gains and losses accumulated in the currency translation adjustment account are deferred and disclosed as a separate component of shareholders' deficiency until the Company's net investment in these foreign operations is reduced. As a result of the sale, the Company's net investment in Jack Astor's (Cary & Las Colinas) Limited was reduced and the currency translation adjustment related to the restaurant of $202,000 was recognized in the consolidated statements of operations.

The results of Jack Astor's Cary, LLC have been reported as a discontinued operation. The prior period's balances reflect the retroactive reclassification of Jack Astor's Cary, LLC's discontinued operation.

The summarized statement of operations for this discontinued operation is as follows:

| | **52-week period ended August 28, 2011 $** | **52-week period ended August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Food and beverage revenue | 2,072 | 2,565 |
| Loss from discontinued operation | (436) | (208) |
| Loss on disposal | (565) | - |
| Currency translation adjustment | (202) | - |
| | (1,203) | (208) |

Interest of $150,000 on long-term debt was paid by Jack Astor's Cary, LLC for the 52-week period ended August 28, 2011 (52-week period ended August 29, 2010 - $110,000).

The remaining assets and liabilities of the discontinued operation will be settled in the ordinary course of business. The summarized balance sheet for the discontinued operation is as follows:

| | **August 28, 2011 $** | **August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Current assets | | |
| Cash and cash equivalents | 24 | 32 |
| Accounts receivable | 179 | 31 |
| Inventories | - | 33 |
| Prepaid expenses, deposits and other assets | - | 5 |
| | 203 | 101 |
| Property and equipment | - | 2,385 |
| | 203 | 2,486 |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 121 | 104 |
| Current portion of long-term debt | - | 1,140 |
| | 121 | 1,244 |
| Net assets of discontinued operation | 82 | 1,242 |

## 6 Loans and advances

| | **August 28, 2011 $** | **August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Loan receivable from U.S. S.I.R. L.L.C., with interest at 10%, interest only repayable annually, due August 31, 2003 | 1,180 | 1,180 |
| Advances to and receivables from U.S. S.I.R. L.L.C., non-interest bearing, due on demand | 3,596 | 3,971 |
| Advances to and receivables from subsidiaries of U.S. S.I.R. L.L.C., non-interest bearing, due on demand | 398 | 398 |
| | 5,174 | 5,549 |
| Provision for impairment | (3,709) | (4,109) |
| | 1,465 | 1,440 |
| Current portion | (400) | (375) |
| | 1,065 | 1,065 |

Loans and advances are reviewed for impairment on an individual basis. The assessment of impairment is based on the expected ability of the payor to make the required payments when due. Interest income is not recorded when a loan becomes impaired.

Prior to 2008, advances were made to U.S. S.I.R. L.L.C. and its subsidiaries (related parties) to facilitate ongoing operations and the closure of certain restaurant operations. The Company determined that these loans and advances are impaired based on estimated future cash flows of the remaining US operations. Accordingly, the loans and advances have been recorded at their estimated net realizable value of $1,465,000 (August 29, 2010 - $1,440,000). During 2011, the Company received payments of $558,000 (52-week period ended August 29, 2010 - $538,000) and, as a result, recognized interest income of $183,000 (52-week period ended August 29, 2010 - $151,000) in the current year. The Company also recorded a recovery of impairment of $400,000 (52-week period ended August 29, 2010 - $700,000) in the current year based on the expected future payments to be received from U.S. S.I.R. L.L.C.

Prior to 2008, the Company acquired certain debt owed by U.S. S.I.R. L.L.C. from certain shareholders. The loan of $2,284,000 bears interest at 10% and has no set terms of repayment. In addition, on November 13, 2009, the Company acquired a loan receivable of $265,000 from a shareholder of the Company. The Company maintains the carrying value of the U.S. S.I.R. L.L.C. loans at $nil, which is the carrying value prior to acquisition.

A continuity of the loans and advances to U.S. S.I.R. L.L.C. and subsidiaries is as follows:

| | **$** (in thousands of dollars) |
|---|---|
| Balance - August 30, 2009 | 1,127 |
| Payment received | (538) |
| Interest | 151 |
| Recovery of impairment | 700 |
| Balance - August 29, 2010 | 1,440 |
| Payment received | (558) |
| Interest | 183 |
| Recovery of impairment | 400 |
| Balance - August 28, 2011 | 1,465 |

## 7 Property and equipment

| | | | **August 28, 2011 $** |
|---|---|---|---|
| | **Cost** | **Accumulated amortization** (in thousands of dollars) | **Net** |
| Corporate | | | |
| Furniture, fixtures and equipment | 529 | 481 | 48 |
| Leasehold improvements | 238 | 238 | - |
| Computer equipment and software | 1,348 | 1,015 | 333 |
| Restaurants | | | |
| Furniture, fixtures and equipment | 38,323 | 20,980 | 17,343 |
| Leasehold improvements | 56,457 | 33,015 | 23,442 |
| | 96,895 | 55,729 | 41,166 |

| | | | **August 29, 2010 $** |
|---|---|---|---|
| | **Cost** | **Accumulated amortization** (in thousands of dollars) | **Net** |
| Corporate | | | |
| Furniture, fixtures and equipment | 528 | 450 | 78 |
| Leasehold improvements | 238 | 232 | 6 |
| Computer equipment and software | 1,387 | 1,154 | 233 |
| Restaurants | | | |
| Furniture, fixtures and equipment | 36,786 | 19,358 | 17,428 |
| Leasehold improvements | 54,193 | 29,662 | 24,531 |
| | 93,132 | 50,856 | 42,276 |

Amortization of property and equipment charged to the consolidated statements of operations for the 52-week period ended August 28, 2011 was $7,776,000 (52-week period ended August 29, 2010 - $7,766,000).

Property and equipment include $187,000 (August 29, 2010 - $1,013,000) of costs for restaurants under development that were not being amortized as at August 28, 2011.

Property and equipment include computer equipment and furniture, fixtures and equipment held under capital leases with a cost of $27,000 (August 29, 2010 - $942,000) and net carrying value of $17,000 (August 29, 2010 - $426,000).

As a result of a decline in sales and earnings from certain restaurants, the Company conducted an impairment analysis of these restaurants' long-lived assets. The analysis indicated that the estimated future cash flows for three restaurants (2010 - nil) were not sufficient to recover the carrying value of the restaurants' long-lived assets (property and equipment). In addition, certain costs incurred for a restaurant were abandoned. Accordingly, an impairment loss of $935,000 (August 29, 2010 - $nil) was recorded to write down the assets to their fair values. The fair values were determined using a depreciated replacement cost methodology or comparable historical transactions.

Restaurant furniture, fixtures and equipment and leasehold improvements were written down to reflect this impairment in the following operating segments:

| | **August 28, 2011 $** | **August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Jack Astor's | 67 | - |
| Alice Fazooli's | 296 | - |
| Canyon Creek Chop House | 444 | - |
| Signature | 128 | - |
| | 935 | - |

## 8 Intangible and other assets

| | | | **August 28, 2011 $** |
|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net** |
| | | (in thousands of dollars) | |
| Computer software | 850 | 763 | 87 |
| Financing fees (note 9) | 496 | - | 496 |
| Intangible lease assets | 945 | 680 | 265 |
| | 2,291 | 1,443 | 848 |

| | August 29, 2010 $ | | |
|---|---|---|---|
| | **Cost** | **Accumulated amortization** (in thousands of dollars) | **Net** |
| Computer software | 824 | 756 | 68 |
| Intangible lease assets | 1,010 | 663 | 347 |
| | 1,834 | 1,419 | 415 |

Amortization of intangible and other assets charged to the consolidated statements of operations for the 52-week period ended August 28, 2011 was $133,000 (52-week period ended August 29, 2010 - $164,000).

## 9 Bank indebtedness and long-term debt

| | **August 28, 2011 $** | **August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Senior term debt (a) | 22,636 | 23,916 |
| Capital lease obligations, bearing interest between 4.8% and 10.8%, repayable in monthly instalments, maturing between September 15, 2010 and August 1, 2015 | 21 | 291 |
| | 22,657 | 24,207 |
| Current portion | (2,078) | (2,074) |
| | 20,579 | 22,133 |

a) On November 13, 2009, the Company entered into a $26,000,000 senior term debt facility, which, in turn, replaced the former $16,000,000 credit facility. The senior term debt facility has a three-year term with a ten-year amortization. The rate of interest on the financing is equal to the greater of 7.8% per annum and the three-month Canadian dollar banker's acceptance rate plus 7.55% per annum, calculated monthly, not in advance. The debt is repayable in estimated monthly blended instalments of principal and interest of $313,000.

Effective August 26, 2011, the Company's credit agreement was amended and restated to include an additional loan amount (the Development Loan) to the existing senior term debt facility. The Development Loan is for a maximum principal amount of $12,000,000 available to the Company by way of multiple advances, dispensed on or prior to May 18, 2012, and has a five-year term and a seven-year amortization. The rate of interest on the Development Loan is the greater of 6.0% per annum and the three-month Canadian dollar banker's acceptance rate plus 5.75% per annum, calculated monthly, not in advance. As at August 28, 2011, available drawings under the Development Loan total $12,000,000. Under the amended and restated credit agreement, the Company has the option to extend the maturity of the senior term debt from November 13, 2012 to be co-terminus with the maturity date of the Development Loan. The extension is conditional on approval from the lender.

The amended and restated credit facility is collateralized by a general security agreement and entitles the lender to a first charge on all of the Company's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of the rights under the Licence and Royalty Agreement. However, the lender does not have a pledge over the assets of the Partnership. The financing arrangement contains certain financial and non-financial covenants that the Company is in compliance with as at August 28, 2011. In addition, the debt is guaranteed by the majority shareholder of the Company (a related party), for which a guarantee fee of $230,000 (52-week period ended August 29, 2010 - $30,000) was charged to other income - net in the consolidated statements of operations (note 17). The Company also issued 26 warrants to the majority shareholder of the Company to acquire Class S Special Shares of the Company concurrent with this transaction. These warrants were also pledged to the new senior lender (note 12).

The Company incurred financing fees of $496,000 in respect of the amended and restated credit agreement, which have been classified in intangible and other assets. These financing fees will be netted against the Development Loan when the Company commences drawing on this facility.

b) As at August 28, 2011, the Company has outstanding letters of credit and a purchasing card totalling $101,000 (August 29, 2010 - $71,000).

c) In compliance with CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Company has recorded its long-term debt at amortized cost. The Company has netted the financing fees against the respective debt and amortizes these costs over the expected term of the long-term debt using the effective interest rate method. Amortization of financing fees of $353,000 (52-week period ended August 29, 2010 - $566,000) has been charged to interest expense in the consolidated statements of operations. Unamortized financing fees netted against the debt at August 28, 2011 were $407,000 (August 29, 2010 - $760,000).

d) The principal amount of long-term debt is repayable as follows:

| | **$** (in thousands of dollars) |
|---|---|
| 2012 | 2,078 |
| 2013 | 20,975 |
| 2014 | 5 |
| 2015 | 6 |
| | 23,064 |

e) A summary of the effective interest rate on long-term debt and interest expense, in thousands of dollars, is as follows:

| | August 28, 2011 | August 29, 2010 |
|---|---|---|
| Weighted average interest rate on long-term debt | 8.8% | 6.9% |
| Interest expense relating to long-term debt | $2,103 | $1,786 |

## 10 SIR Royalty Income Fund

### a) Loan payable to SIR Royalty Income Fund

The $40,000,000 SIR Loan bears interest at 7.5% per annum and is due on October 12, 2044. On November 13, 2009, the Fund and the Partnership entered into a Subordination and Postponement Agreement to subordinate and postpone their claims against the Company in favour of the bank. This agreement was amended on August 26, 2011 to incorporate the Development Loan under the Company's amended and restated credit facility. The Fund and the Partnership have not guaranteed the current credit facility (note 9).

The bank debt is permitted indebtedness within the meaning of the agreements between the Fund, the Partnership and the Company and, as a result, the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against the Company to the claims of the bank. This subordination, which includes a subordination of the Partnership's rights under the Licence and Royalty Agreement between the Partnership and the Company, whereby the Partnership licenses to the Company the right to use the trademarks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of the Subordination and Postponement Agreement.

Under the Subordination and Postponement Agreement, absent a default or event of default under the current credit facility, ordinary payments to the Fund and the Partnership can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the Licence and Royalty Agreement. However, if a default or an event of default were to occur, then payments to the Fund and the Partnership could cease and the related rights of the Fund and the Partnership could be subject to a "standstill" obligation for a period of up to 120 days (which may be extended if the bank is pursuing remedies). The Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. In addition, the Company provided an undertaking to the Fund and the Partnership to restrict the amount of additional debt that the Company can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

Interest expense charged to the consolidated statements of operations for the 52-week period ended August 28, 2011 was $2,992,000 (52-week period ended August 29, 2010 - $2,992,000).

The Company has the right to require the Fund to, indirectly, purchase its Class C GP Units of the Partnership and assume a portion of the SIR Loan as consideration for the acquisition of the Class C GP Units.

In compliance with CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Company has recorded the SIR Loan at amortized cost. The Company has netted the financing fees against the SIR Loan and amortizes this cost over the term of the SIR Loan using the effective interest rate method. Amortization of financing fees of $25,000 for the 52-week period ended August 28, 2011 (52-week period ended August 29, 2010 - $23,000) has been charged to interest expense in the consolidated statements of operations. Unamortized financing fees netted against the SIR Loan as at August 28, 2011 were $4,400,000 (August 29, 2010 - $4,425,000).

**b) Non-controlling interest in SIR Royalty Limited Partnership**

| | **52-week period ended August 28, 2011 $** | **52-week period ended August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Initial investment by the Fund | 11,167 | 11,167 |
| Non-controlling interest in earnings of the Partnership | 4,886 | 4,618 |
| Distributions declared on the Partnership units held by the non-controlling interest | (4,886) | (4,618) |
| Non-controlling interest in the Partnership | 11,167 | 11,167 |
| Pooled revenue* | 203,421 | 198,318 |
| Partnership royalty income* | 12,205 | 11,899 |
| Other income | 34 | 25 |
| Partnership expenses | (101) | (95) |
| Net earnings of the Partnership | 12,138 | 11,829 |
| The Company’s interest in the Partnership | (7,252) | (7,211) |
| Non-controlling interest in the Partnership | 4,886 | 4,618 |

*Includes revenue from the SIR Restaurants subject to the Licence and Royalty Agreement. The Partnership owns the Canadian trademarks (the SIR Rights) formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company’s restaurants in Canada. Partnership royalty income is 6% of pooled revenue in accordance with the Licence and Royalty Agreement, plus a Make-Whole Payment for closed restaurants, from the date of closure to December 31 of the year closed.

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash of $11,167,000. The holders of the Ordinary LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership.

The Company, as the holder of the Class A GP Units, is entitled to receive a pro rata share of all residual distributions of the Partnership and the Class A GP Units are exchangeable into units of the Fund.

The Partnership owns the SIR Rights formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company’s restaurants in Canada. In 2004, the Partnership granted the Company a 99-year licence to use the SIR Rights in most of Canada in consideration for a Royalty, payable by the Company to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants (the Licence and Royalty Agreement).

Under the terms of the Licence and Royalty Agreement, the Company may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. The Company is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the Adjustment Date), the restaurants subject to the Licence and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, the Company will be entitled to convert its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. Additional Class B GP Units may be converted into Class A GP Units in respect of these new SIR Restaurants if actual revenues of the new SIR Restaurants exceed 80% of the initial estimated revenue. Conversely, converted Class A GP Units will be returned by the Company if the actual revenues are less than 80% of the initial estimated revenue. In December of each year, an additional distribution will be payable to the Class B GP unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenue or there will be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenue.

On January 1, 2011, one (January 1, 2010 - nil) new SIR restaurant was added to the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one new restaurant n January 1, 2011 (January 1, 2010 - nil), as well as the Second Incremental Adjustment for nil new SIR restaurants added to the Royalty Pooled Restaurants on January 1, 2010 (January 1, 2009 - six), the Company converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 137,000 (January 1, 2010 - 244,000) Class B GP Units into 137,000 (January 1, 2010 - 244,000) Class A GP Units on January 1, 2011 at an estimated fair value of $1,420,000 (January 1, 2010 - $1,237,000). As a result of this exchange, the Company’s interest in the Partnership increased to 36.7% effective January 1, 2011 from 35.7%.

In addition, the revenues of nil (January 1, 2009 - six) new SIR Restaurants added to the Royalty pool on January 1, 2010 exceeded 80% of the Initial Adjustment’s estimated revenue and, as a result, an additional distribution of $nil was declared in December 2010 (December 2009 - $337,000) and paid the following January.

### c) Amounts due to SIR Royalty Income Fund

Amounts due to (from) SIR Royalty Income Fund and its subsidiaries consist of:

| | **August 28, 2011 $** | **August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Advances receivable | (2,021) | (1,987) |
| Interest payable on SIR Loan (note 10(a)) | 481 | 489 |
| Partnership distributions payable (note 10(b)) | 3,436 | 3,242 |
| Payable to SIR Royalty Income Fund and its subsidiaries - net | 1,896 | 1,744 |

Amounts due to (from) related parties are non-interest bearing and due on demand.

During the 52-week period ended August 28, 2011, distributions of $4,886,000 (52-week period ended August 29, 2010 - $4,618,000) were declared to the Fund through the Partnership. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

The Company, through the Partnership, has entered into an arrangement with the Fund and the Trust, whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the Managing General Partner. For the 52-week period ended August 28, 2011, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (52-week period ended August 29, 2010 - $24,000), which was the amount of consideration agreed to by the related parties.

## 11 Other long-term liabilities

| | **August 28, 2011 $** | **August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Supplier rebates | 187 | 298 |
| Leasehold inducements and straight-line rent liability | 5,584 | 5,612 |
| Accrued management bonus (a) | 3,546 | 3,916 |
| Asset retirement obligation (b) | 467 | 443 |
| | 9,784 | 10,269 |
| Current portion | (1,042) | (1,387) |
| | 8,742 | 8,882 |

a) The Company has a management bonus program that provides restaurant managers and area directors with the opportunity to earn a bonus based on the cash flow of the restaurant(s). The percentage of cash flow earned depends on the manager's and area director's years of service and ranges from 0% to 10%. The managers and area directors also have the opportunity to earn a bonus on leaving the organization if he or she has completed at least five years of service. This bonus is based on a predetermined formula, using cash flows over a three-year period and a percentage that ranges from 2% to 10%. On leaving the program, the participant's bonus is paid in three instalments over a two-year period.

b) The Company has recorded an asset retirement obligation in respect of the estimated lease-end remediation costs. The asset retirement obligation was estimated based on a discounted cash flow analysis using the following key assumptions:

| | **August 28, 2011** | **August 29, 2010** |
|---|---|---|
| Total undiscounted estimated cash flows, in thousands of dollars | $782 | $770 |
| Expected timing of repayments | 0.6 to 14.3 years | 0.3 to 13.2 years |
| Discount rate | 4.5% to 7.5% | 4.5% to 7.5% |

## 12 Capital stock

Authorized
Unlimited Class S Special Shares
Unlimited common shares

Issued and outstanding
No Class S Special Shares are issued or outstanding as at August 28, 2011.
The issued and outstanding common shares and changes during the periods are as follows:

| | **August 28, 2011** | | **August 29, 2010** | |
|---|---|---|---|---|
| | **Number of shares** (in thousands) | **$** (in thousands of dollars) | **Number of shares** (in thousands) | **$** (in thousands of dollars) |
| Balance - Beginning of period | 10,368 | 11,571 | 15,775 | 17,605 |
| Repurchased | - | - | (5,407) | (6,034) |
| Balance - End of period | 10,368 | 11,571 | 10,368 | 11,571 |

On November 13, 2009, the Company entered into a new $26,000,000 senior term debt facility (note 9). Part of the proceeds from this facility was used to repay $12,740,000 outstanding on the existing debt at that time. The remaining proceeds, as well as a portion of existing cash on hand, were used to repurchase 5,407,000 common shares of the Company from one shareholder as well as to acquire the rights to certain debts owed by U.S. S.I.R. L.L.C. from one shareholder of the Company and to pay professional fees and transaction costs relating to these transactions. The shareholder assigned its rights to certain debts owed by U.S. S.I.R. L.L.C. totalling $265,000. The loan bears interest at 10% and has no set terms of repayment. The transfer of the U.S. S.I.R. L.L.C. loan was recorded at its carrying value, prior to acquisition by the Company, of $nil. Accordingly, the difference between the carrying value and cash consideration of $265,000 was charged to deficit during the 52-week period ended August 29, 2010.

The consideration for the share repurchase was $16,764,000, including transaction costs of $29,000, representing the exchange amount between the Company and the shareholder. Of this amount, $6,034,000 was charged to capital stock and $10,730,000 was charged to deficit during the 52-week period ended August 29, 2010, representing the excess of the purchase price over carrying value of shares.

The Company also filed Articles of Amendment to authorize unlimited Class S Special Shares. The Class S Special Shares have 1,000,000 votes per share, are redeemable at the option of the holder for a redemption amount, as defined in the Articles of Amendment, and are redeemable at the option of the Company at any time following the third anniversary of the date of first issuance of any Class S Special Share, at the redemption amount. No Class S Special Shares are currently outstanding; however, as part of the senior term debt agreement, the Company issued 26 warrants to acquire one Class S Special Share per warrant to a shareholder of the Company. The warrants have an exercise price of $1.00, expire on November 11, 2020 and can only be exercised on the event of default by the Company with respect to its senior term debt facility. The warrants, which are a derivative financial instrument, were initially recorded at fair value of $nil.

In addition, 836,000 stock options with an exercise price of $0.01 were forfeited by a shareholder of the Company.

**Stock option plan**

There were 24,000 (52-week period ended August 29, 2010 - 836,000) stock options forfeited and no stock options were granted or exercised during the 52-week period ended August 28, 2011. A summary of the status of the Company’s stock option plan as at August 28, 2011 and August 29, 2010 and changes during the periods is presented below:

| | Number of stock options outstanding (in thousands) | Weighted average exercise price per share $ |
|---|---|---|
| Balance - August 30, 2009 | 2,181 | 0.03 |
| Forfeited during 2010 | (836) | 0.01 |
| Balance - August 29, 2010 | 1,345 | 0.04 |
| Forfeited during 2011 | (24) | nil |
| Balance - August 28, 2011 | 1,321 | 0.04 |

As at August 28, 2011, the outstanding and exercisable stock options to purchase common shares are as follows:

| | Stock options outstanding and exercisable | | | |
|---|---|---|---|---|
| **Stock option price range** | **Number of stock options** (in thousands) | **Weighted average remaining life (years)** | **Weighted average exercise price $** | |
| $nil (a) | 10 | (a) | - | |
| $0.01 (b) | 1,276 | 9.5 | 0.01 | |
| $1.00 (US) (c) | 35 | (c) | 1.00 | (US) |
| | 1,321 | | | |

As at August 29, 2010, the outstanding and exercisable stock options to purchase common shares are as follows:

| | Stock options outstanding and exercisable | | | |
|---|---|---|---|---|
| **Stock option price range** | **Number of stock options** (in thousands) | **Weighted average remaining life (years)** | **Weighted average exercise price $** | |
| $nil (a) | 34 | (a) | - | |
| $0.01 (b) | 1,276 | 10.5 | 0.01 | |
| $1.00 (US) (c) | 35 | (c) | 1.00 | (US) |
| | 1,345 | | | |

a) These stock options have all vested. On death, permanent disability or resignation of employment with the Company, the Company retains the right to purchase the employee's remaining interest at a negotiated price, which shall be paid over three years. These stock options do not expire.

b) The stock options vested at the date of grant and expire on February 12, 2021.

c) These stock options have all vested. In the event of death, disability, or resignation or replacement as a director, the Company retains the right to purchase the optionee's remaining interest at a negotiated price, which shall be paid over three years. These stock options do not expire. Subsequent to year-end, these stock options were forfeited.

Subsequent to year-end, on August 30, 2011, 190,000 stock options were granted to certain directors of the Company. Of this amount, 35,000 stock options vested at the date of grant and have an exercise price of $1.00 per share. Of the remaining stock options, one-fifth vest annually, commencing on August 30, 2012, with 35,000 having an exercise price of $1.00 per share and 120,000 having an exercise price of $2.00 per share. All stock options have an expiry date of August 30, 2016. On death, permanent disability, resignation or replacement by the shareholders of the Company, the Company retains the right to purchase the directors' remaining interest at a negotiated price, which shall be paid over three years.

## 13 Related party transactions

In addition to the transactions disclosed elsewhere in these consolidated financial statements, the Company entered into the following related party transactions:

| | **August 28, 2011** **$** | **August 29, 2010** **$** |
|---|---|---|
| | (in thousands of dollars) | |
| Corporate costs | | |
| Paid operational services provided by two shareholders and directors of the Company | 647 | 629 |
| Paid consulting fees indirectly to one of the Company's directors | - | 27 |
| Paid consulting fees provided by two shareholders and directors of the Company | 102 | 101 |
| Direct costs of restaurant operations | | |
| Paid consulting fees indirectly to one of the Company's directors | - | 7 |
| Property and equipment | | |
| Paid for design fees and fixtures provided by one shareholder of the Company | 718 | 184 |
| Long-term debt - deferred financing fees | | |
| Paid consulting fees to one of the Company's shareholders and directors | - | 55 |

The above transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in accounts payable and accrued liabilities are amounts due to one shareholder for design fees and fixtures provided to the Company as at August 28, 2011 of $119,000 (August 29, 2010 - $nil).

## 14 Contingencies and commitments

### a) Contingencies

In the normal course of business the Company is threatened from time to time with, or named as a defendant in, legal proceedings, including those relating to wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company.

### b) Commitments

The Company and its subsidiaries have entered into operating leases relating to its head office and retail locations with minimum annual payments (excluding occupancy cost and percentage rent) as follows:

| | **$** (in thousands of dollars) |
|---|---|
| 2012 | 10,726 |
| 2013 | 11,082 |
| 2014 | 10,542 |
| 2015 | 9,629 |
| 2016 | 8,220 |
| Thereafter | 29,772 |
| | 79,971 |

The Company has four commitments to lease new properties for five new restaurants, plans to build four new restaurants and has completed the construction of one restaurant subsequent to year-end. The Company is committed to fulfilling its purchase obligations for the one completed restaurant and incurred approximately $1,900,000 to complete this restaurant subsequent to year-end. As at August 28, 2011, the Company has not entered into any construction contracts for the four remaining restaurants to be built, but expects to do so in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Such things as finalization of design and final construction quotations could change the total cost of these projects.

## 15 Supplemental information to the consolidated statements of cash flows

The net change in working capital items is as follows:

| | **52-week period ended August 28, 2011 $** | **52-week period ended August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Accounts receivable | (261) | (94) |
| Inventories | (65) | 6 |
| Prepaid expenses, deposits and other assets | 70 | (88) |
| Accounts payable and accrued liabilities | 506 | 2,042 |
| Amounts due to SIR Royalty Income Fund | 152 | 364 |
| Accrued management bonus | (370) | (49) |
| | 32 | 2,181 |

Other non-cash items consist of the following:

| | **52-week period ended August 28, 2011 $** | **52-week period ended August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Loss on disposal of property and equipment | 269 | 140 |
| Straight-line rent expense | 342 | 294 |
| Supplier rebates | (213) | (149) |
| Other | (43) | (24) |
| | 355 | 261 |

Supplemental cash flow information is as follows:

| | **52-week period ended August 28, 2011 $** | **52-week period ended August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Interest paid | 5,106 | 4,465 |
| Income taxes recovered | 7 | 8 |
| Purchase of property and equipment under capital leases | - | 27 |

## 16 Income taxes

The components of the provision for (recovery of) income taxes are as follows:

| | **52-week period ended August 28, 2011 $** | **52-week period ended August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Current | - | (7) |
| Future | (5) | 11 |
| | (5) | 4 |

The reconciliation of the Company's effective tax rate to the combined Canadian federal and provincial statutory income tax rate is as follows:

| | **52-week period ended August 28, 2011 $** | **52-week period ended August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Earnings (loss) before income taxes from continuing operations | (3,479) | 223 |
| Income tax provision (recovery) at Canadian statutory income tax rate of 28.9% (August 29, 2010 - 32.0%) | (1,005) | 71 |
| Increase (decrease) by the effect of | | |
| Non-controlling interest in SIR Royalty Limited Partnership | 1,412 | 1,478 |
| Non-deductible expenses | 23 | 26 |
| Deductible expenses - eliminated on consolidation | (1,984) | (1,907) |
| Benefit of losses not recognized (recognized) | 1,499 | (501) |
| Change in future income tax rates | - | 992 |
| Other | 50 | (155) |
| | (5) | 4 |

Future income tax assets (liabilities) are summarized as follows:

| | **August 28, 2011** **$** | **August 29, 2010** **$** |
|---|---|---|
| | (in thousands of dollars) | |
| Property and equipment | (522) | (491) |
| Intangible and other assets | 321 | 328 |
| Deferred financing fees | (995) | (950) |
| Loss carry-forwards | 8,083 | 7,194 |
| Accrued management bonus | 886 | 982 |
| Leasehold inducements | 1,384 | 1,421 |
| Asset retirement obligation | 115 | 109 |
| Ontario tax harmonization | 83 | 95 |
| | 9,355 | 8,688 |
| Valuation allowance | (9,458) | (8,796) |
| | (103) | (108) |

As at August 28, 2011, the Company and its subsidiaries have available non-capital losses of $29,345,000 (August 29, 2010 - $25,722,000) for income tax purposes, which expire as follows:

| | **$** (in thousands of dollars) |
|---|---|
| 2014 | 849 |
| 2015 | 8,505 |
| 2026 | 2,741 |
| 2027 | 1,552 |
| 2028 | 2,830 |
| 2029 | 690 |
| 2030 | 7,410 |
| 2031 | 4,768 |
| | 29,345 |

In addition, the Company has capital losses of $5,939,000 (August 29, 2010 - $5,939,000), which do not expire and are available to reduce future capital gains.

In aggregate, the Company has recognized $nil (August 29, 2010 - $nil) of the benefit of the capital losses. The benefits of non-capital losses have been recognized only to the extent that these can be offset by other future income tax liabilities.

## 17 Other income (expense) - net

Other income (expense) - net comprises the following:

| | **52-week period ended August 28, 2011 $** | **52-week period ended August 29, 2010 $** |
|---|---|---|
| | (in thousands of dollars) | |
| Loss on disposal of property and equipment | (269) | (140) |
| Income from gift certificates | 373 | 467 |
| Guarantee fee (a) | (230) | (30) |
| Net loss from trial restaurant operations (b) | (108) | - |
| Other | 228 | 70 |
| | (6) | 367 |

a) During the 52-week period ended August 28, 2011, the Company expensed $230,000 (52-week period ended August 29, 2010 - $30,000) relating to a guarantee fee to the majority shareholder of the Company. The guarantee fee is payable over a three-year period ending April 13, 2013 in equal quarterly payments of $45,000 and is being amortized over the term of the guarantee agreement (note 9(a)).

b) During the 52-week period ended August 28, 2011, the Company agreed to develop and/or operate three seasonal restaurant operations on a trial basis. Two of the seasonal restaurants are operated as divisions of companies owned by a party related to a director of the Company (the related companies). The net loss from these operations for the 52-week period ended August 28, 2011 was $108,000.

Included in the net loss from these operations is revenue from a company that is owned by a party related to a director of the Company of $45,000 for the 52-week period ended August 28, 2011.

Amounts due to the Company of $78,000 from these related companies are included in accounts receivable as at August 28, 2011.

Amounts due from the Company of $57,000 to these related companies are included in accounts payable and accrued liabilities as at August 28, 2011.

The above transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related party.

## 18 Segmented operations

The Company operates a portfolio of restaurants in Canada, categorized as Concept or Signature restaurants. Concept restaurants are brands that have been rolled out to multiple locations; Signature restaurants are one-of-a-kind brands. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates the performance of each segment based on earnings (loss) from operations before income taxes, interest, other non-recurring gains and losses, corporate costs and amortization of non-restaurant assets.

Selected information about the Company's operating segments has been provided as follows:

| | 52-week period ended August 28, 2011 $ | 52-week period ended August 29, 2010 $ |
|---|---|---|
| | (in thousands of dollars) | |
| **Food and beverage revenue** | | |
| Jack Astor's | 144,910 | 136,491 |
| Alice Fazooli's | 18,155 | 19,189 |
| Canyon Creek Chop House | 27,873 | 27,657 |
| Signature | 15,742 | 14,981 |
| | 206,680 | 198,318 |

## 19 Capital management

The Company's capital consists of its capital stock and deficit of $11,571,000 and $55,052,000, respectively. The objectives in managing capital are to safeguard the Company's ability to continue as a going concern, to provide financial capacity and flexibility to meet its strategic objectives, to allow the Company to respond to changes in economic and/or marketplace conditions and to provide a return to its shareholders. The Company strives to maintain an optimal split between debt and equity with a view to balancing its flexibility while minimizing its cost of capital. The Company evaluates cash flow through its budgeting and forecasting process, to help plan and track its capital requirements to meet its strategic plans.

On November 13, 2009, the Company provided an undertaking to the Fund and the Partnership to restrict the amount of the additional debt that the Company can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

The Company is required to issue common shares on the exercise of stock options by shareholders, directors and employees.